

# FACTSHEET

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## CURRENT FINANCING ISSUES

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### SOCIAL SECURITY TRUST FUNDS AND THE TOTAL FEDERAL BUDGET

The operations of the trust funds are excluded from the federal budget operations and thus, officially, are not counted against the overall federal deficit. In practice, however, trust fund reserves are invested in federal Treasury securities, thereby **reducing** the amount that the government must borrow from the public. Indirectly, therefore, Social Security operations help to balance the budget. This has become a controversial issue. Many feel that it is inappropriate to finance a significant portion of general federal expenditures from the Social Security payroll tax, and that this practice presents a misleading appearance of Social Security's financial status. Others argue that the practice can increase national savings and lead to faster economic growth in the future, thereby improving our ability to pay for the cost of the baby boomer's retirement.

### GOVERNMENT BORROWING AND SOCIAL SECURITY

Many advisory boards and congressional study groups have viewed the issue of whether Social Security reserves should be invested in other than government securities. They have invariably decided in favor of the least risk to the funds and the economic system. The purchase of government securities represents the safest possible investment—an investment that is backed by the full faith and credit of the U.S. government. Moreover, if the billions of dollars in the Social Security reserves were used to purchase stocks in private companies, or similar investments, the government would soon own or control many of these companies. This would have severe implications for the American economy and would be highly controversial for a country founded on the principal of democracy and individual freedom.

### GETTING YOUR MONEY'S WORTH

Some people suggest that Social Security has been too good a deal for current beneficiaries and that it is a bad investment for current taxpayers. While it is true that, for the most part, today's beneficiaries receive a highly favorable return on their Social Security tax investment, it does not necessarily follow that it will be a bad deal for younger workers.

Consider, for example, someone born in 1977 who will earn average wages. The employee is expected to pay about \$62,083 in today's dollars to the Social Security retirement and survivors trust fund, from which retirement or survivors benefits are paid. With an expected retirement benefit of around \$856 per month, also in today's dollars, it would take about 10 years to recover the employee's contributions, taking interest into account. If this person had a spouse also receiving benefits, they would receive approximately \$1,284 per month and would recover the employee's contributions in about 6.5 years.

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### SOCIAL SECURITY & YOU

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### LESSON 3 FINANCING

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When considering both the employee's and employer's taxes, the figures would more than double for the worker with average wages. However, many feel it is inappropriate to count the employer's taxes when considering the value of the employee's investment in Social Security since the employer is contributing to the retirement system as a whole.

And, young workers should remember the potential value of Social Security disability and survivors benefits when they try to figure if they'll get their money's worth out of the program. A young disabled worker or the young family of a deceased worker stands to receive many times more in Social Security payments than the worker paid in Social Security taxes.

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### THE EVENTUAL LIQUIDATION OF SOCIAL SECURITY RESERVES

Under present law, payment of benefits in the future will depend in part on reducing the Treasury securities held by the trust funds. Some people suggest that doing so will require the government to raise trillions of dollars through increased general taxation, further borrowing from the public or cutbacks in other program outlays.

However, others believe that there is no cause for concern since the government will easily be able to sell new long-term government bonds to the general public to obtain the funds to pay off the bonds Social Security is holding. How easy such a conversion will be may depend in part on the extent to which national wealth and savings will have been increased as a result of the buildup of Social Security reserves in earlier years.

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### SOCIAL SECURITY ACCORDING TO NEED

Some people have suggested "means-testing" Social Security—paying benefits only to people who need them. However, this proposal runs counter to the fundamental purpose of the program, which is to prevent need by providing a floor of income to every worker and his/her family when earnings stop because of retirement, death, or disability. It is estimated that if there were no Social Security, there would be almost four aged persons for every one that is now classified as poor. Moreover, experience has shown that part of the appeal that Social Security has is its relationship to a person's work. Most people prefer benefits as an earned right, payable as a matter of law. Introducing a means test would tend to make it just "another welfare program" in the public's mind, observers believe.

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### CONCLUSION

The continuing public discussion over issues related to the future of Social Security is a sign that it will continue to remain a priority on the American agenda. However, very often we forget that the present debate is over future possibilities rather than present dangers. The dialogue is about assuring that the compact between generations represented by the Social Security system remains viable and strong. The questions generally address the best means to accomplish this end, not whether or not it will be accomplished.

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### SOCIAL SECURITY & YOU

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